

THE  
HISTORY OF CANADIAN CURRENCY, BANKING  
AND EXCHANGE

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X

SOME SPECIAL FEATURES

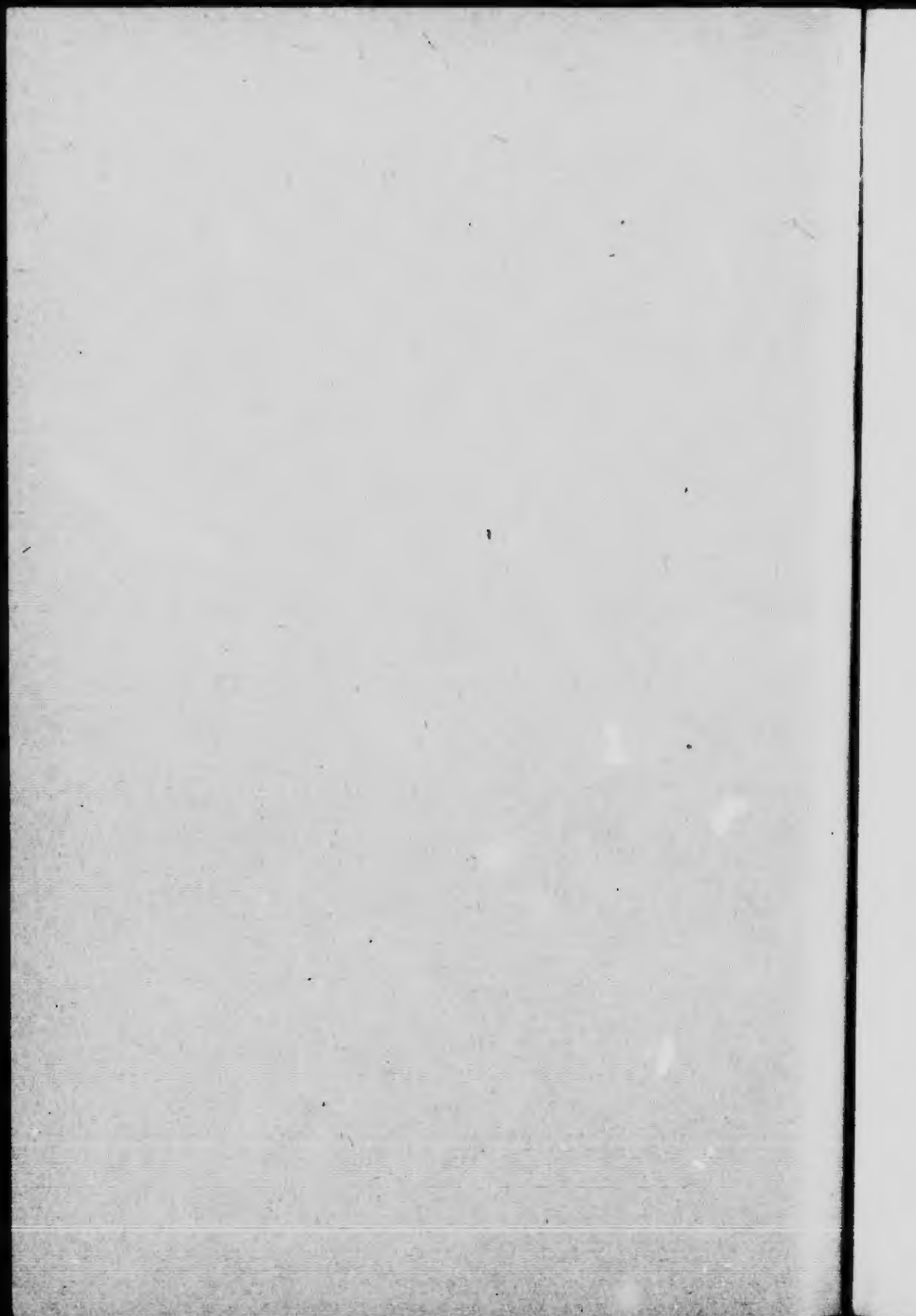
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## THE HISTORY OF CANADIAN CURRENCY, BANKING AND EXCHANGE

### IX.—SOME SPECIAL FEATURES\*

THE central features in the expansion and crisis of Canadian banking during the later thirties have already been dealt with. It now remains to record some of the special incidents of that crowded and complex period. Though all of these are not directly involved in the main stream of events, yet they are of more or less interest and importance for the general history of our subject.

It will perhaps be remembered that the charter of the Quebec Bank expired on the first of May, 1836, while those of the Montreal and City banks continued until the first of June, 1837. During the session of 1835-36, the Quebec Bank petitioned the Assembly for the renewal of its charter for a further term of years. At the same time, Mr. Leslie presented a numerously signed petition from Montreal for the renewal of the charters of the Montreal and City banks. The Standing Committee on Trade reported these petitions favourably, yet the French Canadian majority immediately gave evidence that they were not favourable to the renewal of the bank charters on the existing basis. The applications of the Montreal and City banks were set aside for the present session. The petition of the Quebec Bank,

#### \*Chief sources:

- Journals of the Assembly, Upper Canada.
- Statutes of Upper Canada.
- Journals of the Special Council, Lower Canada.
- Ordinances of the Governor General and Special Council, Lower Canada.
- British Blue Books relating to Canada, 1837-39.
- An Historical and Descriptive Account of British America. By Hugh Murray. Three vols. Edin., 1839.
- The Constitution*, Toronto, 1837.
- The Montreal Gazette*, 1837.
- The Quebec Gazette*, 1838.
- The Chronicle and Gazette*, Kingston, 1839-40.

being urgent, was alone considered. The Assembly took the matter up in committee on January 2nd, 1836. The debate on the subject indicated that the French Canadian leaders intended to radically amend the charters of the banks with a view to altering their system and management. There was a tendency to adopt the constitution of the Banque du Peuple as a standard and to sanction a system of free banking on that basis. In the discussion on the Quebec Bank charter, several amendments were suggested by French Canadian members, with a view to restricting the powers of the officials of the bank, abolishing votes by proxy, preventing members of the same firm from being directors of two different banks, and entirely prohibiting the banks from dealing in exchanges. However, Mr. Papineau intimated that even more radical measures would have to be adopted with reference to the banks. In common with the majority of the House, he took the ground that the whole banking question would have to be gone into the following year, and that therefore it was unnecessary to do more during the present session than renew the charter of the Quebec Bank for thirteen months, so that all the bank charters might expire on the same date. Thus the Act 6th Wm. IV. Cap. 48, consists of but one clause, and simply renews the charter of the Quebec Bank till June 1st, 1837.

But before the next session of the Legislature was called, the political troubles of Lower Canada had reached a very acute stage. The Governor found it necessary to prorogue the Legislature before it got beyond the discussion of the Speech from the Throne. The rebellion breaking out shortly afterwards, the constitutional government of Lower Canada was entirely suspended and the affairs of the Province carried on by a Special Council.

Meantime the banks of Lower Canada, realizing the attitude of the majority towards them, found themselves in a somewhat awkward position. They were threatened with the double danger of failing to secure the renewal of their charters, and of meeting a threatened commercial crisis, in common with American banking and exchange.

During the winter of 1836-37 it became evident to the banks that they had little hope of getting their charters renewed in any form during 1837, hence they prepared to face the inevitable. At a meeting of the shareholders of the Bank of Montreal, held on

the 21st of Nov. 1836, it had been resolved that, in case there should be no prospect of a renewal of the charter, the bank should revert to the condition of a private partnership under articles of association, as before receiving a public charter.

At a meeting of the stockholders of the Quebec Bank, on March 3rd, various resolutions were passed. The gist of these was that, in case their charter could not be renewed, the president and directors were authorized to take what measures might be possible to obtain a renewal of the act of incorporation, or something as near it as possible, so that the business of the bank might be continued after the first of June. As the existing capital of the bank, consisting of £75,000, had been found inadequate to its needs, the president and directors were authorized to increase the capital to £225,000, as provided for in the existing charter. They were also empowered to create a loan or loans to secure this extra capital. For the first time interest was to be allowed upon deposits after June 1st. After the charter expired, the president and directors might make such rules for the future conduct of the affairs of the bank as might appear advisable, subject to the approval of the stockholders at a general meeting convened for the purpose.

On the 30th of March, 1837, the Bank of Montreal gave public notice that, in accordance with the resolutions of the shareholders of the previous November, a book of subscription was to be opened at the head office of the bank, on the 1st of April, and remain open for ten days, for the purpose of receiving the subscriptions of the present shareholders to the new articles of association providing for the continuation of the business of the bank after the first day of June next. Immediately afterwards, on April 11th, books were to be opened at the offices of the bank, in both Montreal and Quebec, to receive subscriptions for £250,000 additional capital, in shares of £50 each. Of this new stock, ten per cent. is to be paid at the time of subscribing, and a further instalment of fifteen per cent. is to be paid on the 15th of May next. Subscribers paying in the whole amount of their stock before the first of June will be entitled to dividends on the full amount of their shares. In the notice it is stated to be the intention of the bank to call in the whole of the new stock within a year after the first of June.

On the same date the City Bank issued a similar notice, as regards the request to the existing stockholders to subscribe to the new articles of association.

During May the crisis in the United States culminated in the suspension of the New York banks. The Lower Canadian banks, following their lead, passed the first of June, which marked the expiration of their charters, in a condition of suspended specie payment.

There being no legislative relief possible in Canada before the bank charters should expire, the banks, early in the year 1837, sought aid by a direct appeal to the Sovereign. Setting forth the special and peculiar circumstances in which they were placed, and the serious injury to themselves, along with the commercial and agricultural interests of the country, should they be forced to close their doors, they petitioned for royal charters to enable them to tide over the difficulties of the period. Their petitions were granted, and the Montreal, Quebec and City banks received royal charters, dated the 31st of May, 1837. The Bank of Montreal charter simply reproduced the leading features of the acts which embodied its existing charter. It fixed the capital at £250,000 as before, instead of at £500,000 to which the shareholders had determined to raise it. Evidently not anticipating any serious interruption of the regular government of the Province, the legal duration of the charter was fixed at twelve months from the conclusion of the next session of the Legislature. As that session opened and closed in August, 1837, the charter was not valid beyond August, 1838. The royal charter of the Quebec Bank was practically identical with that of the Bank of Montreal, and evidently the City Bank's charter was of the same nature. The capital of the Quebec Bank was fixed at £75,000, which was the actual capital of the bank, though, as already observed, its authorized capital was £225,000. From some manuscript papers of Mr. Noah Freer, of the Quebec Bank, in the Canadian Archives, we learn that the expenses connected with obtaining these royal charters were as follows:—Bank of Montreal, £564 18s. 8d., of which £110 represented the stamp duties on the document itself; Quebec Bank, £554 8s. 8d.; City Bank, £526 3s. 8d. This was no small tax for little more than one year's lease of life.

As soon as the Special Council was established in Lower

Canada, the Bank of Montreal invoked its aid in obtaining a new charter. The first session of the Council extended from the 18th of April to the 5th of May, 1838. On April 28th a petition was presented from the president and directors of the Bank of Montreal, praying for incorporation. The petition states that, anticipating the expiring of their former charter in June of the previous year, the petitioners, in the month of March last, had associated themselves together for the purpose of purchasing from the stockholders of the incorporated Bank of Montreal, all their interests, and of assuming and carrying on the business. To that end they had subscribed a capital of £500,000, and had taken over the incorporated bank and continued the business under the same name and with such benefit to the public as the peculiar circumstances of the times would permit. About four-fifths of the subscribed capital had been paid in, and they were of opinion that the public usefulness of the institution would be greatly enlarged, public confidence would be restored, and the commerce and industry of the Province revived, if they were granted an ordinance or act of incorporation similar to that which had expired. This petition was signed by the following gentlemen, who were then the president and directors of the bank: Peter McGill, President; Chas. Masson, Vice-President; Chas. Brooke, Thos. B. Anderson, Jos. Shuter, John McPherson, Jas. Logan, J. Redpath, John Molson, John Torrance, Wm. Lunn, J. Jamieson. The necessary ordinance was duly passed by the Council.

It is rather remarkable that the bank, in its petition to the Council, ignores entirely the royal charter which it had received and simply refers to the action taken by the shareholders of the bank to continue its existence as a private corporation. Neither does the ordinance which was passed, giving it once more a public charter, refer in any way to the royal charter but only to the existence of the bank as a private corporation. This is the more noticeable in that the similar ordinance of the Special Council chartering the Quebec Bank makes very full reference to the royal charter, reciting its leading features and definitely sanctioning and continuing its powers.

The ordinance of the Special Council chartered anew the existing corporation of the Bank of Montreal in terms identical in all essential respects with the original charter. A special clause



transferred the outstanding debts and claims of the old chartered bank to the newly chartered one. The capital of the bank was increased to £500,000, but otherwise practically no change was made, even the criminal clauses appointing the death of a felon without benefit of clergy for embezzlement and forgery, were renewed, though these caused the Lords of the Treasury to advise the disallowance of the ordinance in favour of the Bank of British North America which was passed at the same session. Evidently the Bank of Montreal ordinance was not referred to their Lordships.

The Bank of Montreal having carried on a large business in the Province of Upper Canada, previous to the expiring of its charter, took measures to protect its claims should its charter lapse. It sought and obtained an act of the Provincial Legislature of Upper Canada, during the session of 1836-37, authorizing it to collect its debts notwithstanding the expiry of its charter. During the same session, in consequence of the passing of the act which declared illegal the issue of notes or other paper intended to pass as money, except by definite legislative authority, the Bank of Montreal found itself prevented from issuing its notes in Upper Canada. Before this, as we have seen, various unsuccessful efforts had been made to shut out the Lower Canadian banks from a share in the banking business of Upper Canada. Incidentally, it was accomplished by this act directed against the private banks. However, the Lower Canadian banks, and especially the Bank of Montreal, sought to remedy this by obtaining special legislative authority for their operations in the upper Province. On March 18th, 1839, the Committee on Banking of the Upper Canadian Legislature, presented, as its first report, a bill authorizing institutions incorporated for carrying on the business of banking in Lower Canada, to establish agencies and carry on the business of banking in Upper Canada. This bill, however, was afterwards lost in committee of the House. During the following session another bill to authorize the chartered banks of Lower Canada to carry on business in Upper Canada was introduced. It was supported by a petition from the Toronto Board of Trade, and succeeded in passing the Assembly, but was rejected by the Council. However, in the meantime, the Bank of Montreal had partly solved the difficulty by purchas-



ing, apparently in the beginning of 1838, the affairs of the People's Bank, one of the Upper Canadian joint-stock banks which had been exempted from the action of the law against private banks. But what the Bank of Montreal desired was the chartered privilege to carry on banking in Upper Canada in its own name and with its own notes. This, however, was not attained until the union of the Provinces, when the People's Bank ceased to have a separate existence.

The Quebec Bank, finding that the Bank of Montreal had been successful in its application for a charter at the hands of the Special Council, followed its example and petitioned for a charter the following year. On March 13th, 1839, the Governor submitted to the Council the draft of an ordinance to prolong the term of the royal charter incorporating the Quebec Bank, and to make further provisions for its government and management. The ordinance was duly passed and became law. In addition to continuing the royal charter, with certain conditions and provisions necessary to give it effect, until 1842, it increased the capital of the bank from £75,000 to £225,000. In all essential respects, after the somewhat lengthy preamble, this ordinance was identical with the former legislative charter of the bank, and with that of the Bank of Montreal, except as regards the criminal clauses of the latter. The City Bank does not appear to have applied for any special ordinance continuing its charter; at least no record of it appears.

It was but natural that the mania for banking, which preceded the crisis of 1837, should have bred not only those fairly honest, though not always strongly founded institutions which have already been described, but also a swarm of more or less fraudulent undertakings. These ventures were obviously intended merely to prey upon the public, through the issue of paper money which, under the peculiar conditions of the time, was likely to remain in circulation. They professed to be private or joint-stock banking corporations, and employed the means and usages which even the most respectable institutions were compelled to employ, during the suspension of specie payments and the withholding of public charters. All things considered, many of these spurious or pretended banks were cleverly managed and successfully evaded the law as it then existed, or was necessarily relaxed.

Most of them had their origin and chief field of operations in the neighbouring States. The laws against private banking in those States being quite stringent, they were forced to use the Canadian Provinces, and especially Lower Canada, as a basis of operations. Thus most of them pretended to be Canadian banks and circulated their notes on both sides of the international boundary.

One of the first of these institutions to be heard of was the Commercial Bank of Brockville. Its notes were made to resemble those of the Commercial Bank of Kingston, which had a branch in Brockville. Five and ten dollar notes were being circulated among the farmers of the western portion of the Province early in January, 1837. Nothing was known of it at Brockville and no attempt seems to have been made to circulate its notes in that neighbourhood. A more tangible institution was the Commercial Bank of Fort Erie, which appeared towards the end of January, with a nominal capital of £500,000. It was a joint-stock bank, the president and all the directors, except one, being from Buffalo, the one hailing from Black Rock. The cashier was a Mr. Forsyth, of Waterloo, Upper Canada, and the stockholders were reported as partly Americans and partly Canadians. This bank made a pretence of setting up a regular establishment, but evidently its chief anxiety was simply to issue notes, a number of which it succeeded in getting into circulation.

The suspension of specie payments by the American and Lower Canadian banks afforded an excellent opportunity for these and similar ventures to push their paper, without being forced to disclose the nature of their operations by meeting demands for the redemption of their notes. Accordingly, during May, 1837, Montreal became the nominal centre of a number of new banks.

The public becoming alarmed, a meeting was called about the 18th May, "To take into consideration the circumstances of individuals, entire strangers to the community and to the country, establishing themselves as bankers in this city, and issuing notes purporting to be bank notes, and also to elicit an expression of opinion thereon." Two institutions were specially under consideration, namely, the Merchants Bank of Montreal and the Ottawa Bank, also of Montreal. Mr. A. P. Hart, a lawyer, appeared at the meeting on behalf of the president of the Merchants Bank.

He stated that it was not the intention of that bank to issue notes in the city until the public should express confidence in the institution. Their only reason for opening an office in the city at that time, was that they might redeem \$100 of their notes which had been issued at Buffalo. Mr. Johnston, of Bytown, on behalf of the Ottawa District, repudiated all connection with the Ottawa Bank, which he regarded as simply the work of some Yankee speculators. Though one of the promoters of the Ottawa Bank was declared to be present at the meeting, yet he would not come forward to defend his bank. However, Mr. Wm. Lyman was able to contribute some information with reference to the latter enterprise. During a recent visit to New York, he had been asked by the police to attend the examination of certain parties calling themselves the president, directors, cashier and stockholders of the Ottawa Bank of Montreal. As Mr. Lyman had to admit that there was no law in Lower Canada against the establishment of such a bank, the parties were discharged. From another account, published in Toronto, it appears that there were four of these persons, and that the police of New York found them in the act of preparing and signing notes, of various denominations, of the Ottawa Bank. They explained, on examination, that they were a private banking company, consisting, apparently, of a president, a vice-president, a cashier and a stockholder, intending to set up banking in Montreal. They had signed notes to the extent of \$20,000, unsigned notes to the extent of nearly \$200,000 and about \$700 in specie. There being no ground on which the police could detain them, they were discharged. At the Montreal meeting various resolutions were passed. The gist of these was, that, since there was no general law in the Province regulating the privilege of banking and the issue of bank notes, it was the more urgent that the public should be warned against irresponsible parties issuing bank notes, and especially at the present disturbed period in the affairs of the Province.

However, the promoters of these spurious banks were shrewd enough not to make trouble for themselves in the neighbourhood of their nominal head-quarters, hence none of their notes appear to have been issued in Montreal or its vicinity. The notes were put in circulation partly in the western portions of the upper Province, but more generally in the newer regions of the Ameri-

can west, bordering on lakes Erie and Huron. In July there appeared an account of the arrival at Toronto of the captain of a schooner from Michigan who had acquired \$600 worth of Ottawa Bank notes.

About the middle of July, 1837, the editor of the *Montreal Gazette* received a letter from the police magistrate of Buffalo, wishing to be informed, through the medium of his paper, as to the character and standing of the following banks, whose notes were being circulated in that neighbourhood:—The Bank of St. Lawrence Lumber Company, at Malbaie; The Merchants Bank of Montreal; The Mechanics Bank of St. Johns, L.C.; The Bank of Brockville; The Mechanics Bank of Montreal; The Bank of Ottawa; The Canadian Bank of St. Hyacinthe. To this the editor replied that so far as was known none of those banks had any paper in circulation in that city or neighbourhood. Some time before, the Canadian Bank of St. Hyacinthe had notes in circulation which were redeemed by an agent in Montreal at a small discount, but they had been recently withdrawn and were now redeemed at only one-half their value. He refers also to the public meeting with reference to the Merchants Bank and the Bank of Ottawa. This public statement brought forth a reply from the agent of the Banque Canadienne of St. Hyacinthe, an institution already referred to in these articles, stating that the bank had only suspended specie payment in consequence of similar action on the part of the United States and Lower Canadian banks. The agency for the redemption of its notes being no longer needed in Montreal, it was withdrawn. People might indeed have sacrificed their notes at a discount, yet there was no doubt but that they would all be redeemed in time. The editor was also waited on by two gentlemen representing the Mechanics and Merchants banks, who stated that the notes of the banks in question were redeemed in current bills on application at their offices. Their offices however were found to be in very obscure locations. This extreme modesty and retirement on the part of the head offices of banks which were vigorously pushing their notes in the west would seem to indicate that while they might actually redeem such notes as found their way to them, yet they were by no means anxious that many should find their way there.

In the meantime these banks continued to do a thriving

business in the west, and enquiries from Buffalo, as to their operations, continued. From some of these letters we learn that those manipulating the banks had occasionally redeemed small amounts of their notes, thus adroitly giving the ventures the appearance of sound institutions and greatly aiding their further operations. This will account for the action of the representatives of the Merchants and Mechanics banks in Montreal. Their retiring disposition is also illustrated in the case of a man who, in going from Buffalo to Montreal, exchanged a \$500 United States note for notes of the Mechanics Bank, under the assurance that they would be redeemed at the head office in Montreal. In Montreal, however, he could find no such bank and returned to Buffalo seeking redress. It appears that it was chiefly under cover of exchange transactions, such as these, that the notes were put into circulation and flooded the western States. When one bank was discredited, another took its place. Thus the Ottawa, Brockville and Merchants banks came to be too well known in certain districts, and in the place of their notes appeared those of such banks as the Mechanics Bank of St. Johns, and the Malbaie Bank. The notes of the former bank were particularly admired for the beauty of their designs and the excellence of the engraving.

As the men connected with these institutions came to be known, most of them were found to be from Buffalo, but a few were from Canada, usually near the border line. In all cases they were parties without responsibility, the agents being usually mere clerks.

On August 5th, the Montreal committee of the Board of Trade met and passed several resolutions on the subject of these banks, as a further warning to the public. However, some of the ventures maintained their operations with remarkable boldness in regions far from home. Thus, in August, the following advertisement appeared in the *Chicago Democrat*; "Notice. The subscribers have opened an office in this city for the purpose of doing an exchange business. Notes of the Mechanics Bank at Montreal, and all other kinds of uncurrent money, taken at the usual rates of discount. Next door to King Walker & Co. Aaron Goodrich, Horace O. Gaylord. References, Hon. Wm. B. Rochester and Messrs. Stevens and Co., of Buffalo, L. A. Spauld-

ing, Lockport, and Messrs. H. H. Brown and Co., Detroit." This advertisement coming to the notice of the Hon. W. B. Rochester, he publicly repudiated all knowledge of them or their doings. Stevens and Co. did likewise, declaring that they had no knowledge of them and no confidence in their notes. About the same time in an Albany paper appeared the following : "Bank of Ottawa, Montreal. Joseph C. Frink, late teller of the Monroe Bank at Rochester, has been appointed president of the Bank of Ottawa. The stock of the institution having recently changed hands, the bank is now placed on as good footing as the other banks in that Province."

Finally, about the beginning of October, the people of Buffalo and its neighbourhood took more decisive steps towards suppressing these institutions. The grand jury of Erie County issued a presentment against the notes of the following pretended banks : The Mechanics Bank of Montreal, the Merchants Bank of Montreal, The Bank of Ottawa, The Oxford Bank, The Bank of St. Lawrence Lumber Co., The Mechanics Bank of St. Johns, L.C., The Bank of Brockville, The Kirtland Society and The Georgia Lumber Co. In the course of its presentment the grand jury makes a statement to the following effect. Large quantities of the notes of these pretended banks have been put into circulation in this country and at the west, but it has been proved to us that these banks have no existence, save in name. As an evidence of their character take the Merchants Bank, which is owned by one man of no standing who lives in Buffalo. He hires both the cashier and manager at Montreal to keep an office. It has been proved that quantities of the notes of some of these banks are deposited with persons to issue as opportunity offers. An office has been established at New York which enables them to advertise that they will redeem, at the usual discount, the notes of some of these banks. But the jury is convinced that the object of these pretended banks is simply to defraud the public, and they therefore warn the public against accepting their notes or having anything to do with them.

So long, however, as suspension of specie payment by the regular banks continued, there was no adequate means of finally checking the operations of these spurious banks, which always managed to keep technically free from the clutches of the law.

Only after the resumption of specie payment did they rapidly disappear. Even yet, however, an occasional note turns up to puzzle the antiquarian. Though these banks belong to a forgotten chapter in Canadian history, yet they formed part of that varied experience which enabled the people of the United States and Canada to realize what were the essentials of a sound system of banking.

One of the secondary consequences of the suspension of specie payments by the banks, or the curtailment of their issues where not suspended, was a veritable famine of small currency. The fractional currency of the country was closely connected with the redemption of bank notes, and the bank notes ceasing to be redeemable, a great part of the metallic currency of the country vanished from ordinary circulation, having passed to a considerable premium. No bank notes being permitted to be issued for less than five shillings or one dollar, a great scarcity of fractional currency inevitably resulted. As a natural consequence, the old system of issuing *bons* was once more resorted to by many of the merchants of both Provinces. Almost every town of any importance had its local currency, which circulated throughout the surrounding district. This fractional paper was usually issued in denominations of 3d. (5c.), 6d. (10c.), 7½d. (12½c. a York-shilling), 1s. 3d. (25c.), and 2s. 6d. (50c.) In the English sections of the country they were commonly known by the American name of "shin-plasters." In the case of the more responsible merchants, redemption of these small notes was promised if presented in sums of five shillings or over; in other words, redemption was promised in bank notes of one dollar and upwards.

With the whole country filled with these unauthorized but nevertheless indispensable fractional notes, it became increasingly difficult to avoid fraudulent or insolvent issues, on the one hand, or to abolish the whole system, upon the other. Various attempts were made to deal with the whole question of private note issue. One of the proposals, the least objectionable in itself though of doubtful expediency under the circumstances of the country, was the issue of a Provincial paper currency, and the suppression of all others except that of the chartered banks. This, as we have seen, was specially advocated in Upper Canada.



Proposals to deal with the matter were also urged upon the Government in Lower Canada. Finally, on March the 22nd, 1839, the Governor-General sent to the Special Council the draft of an "Ordinance to prevent the circulation of an unauthorized or unsound paper currency in this Province." The proposed ordinance was not very favourably regarded by the Council. It was referred to a special committee but was never heard of again. Apparently the Governor was asked to submit a more palatable measure, for on April 4th he submitted another draft of an ordinance under the title of, "An ordinance to regulate private banking and the notes of private bankers." This was passed without any trouble. The preamble states that, "It is expedient to regulate, by law, the issue or circulation of notes and other written promises and other undertakings, for the payment of money, intended for circulation in this Province, and not being those of any bank chartered or recognized, or authorized by the Legislature of this Province, or by a competent authority in any part of Her Majesty's dominions, or in the United States of America." Under this law no person is to be permitted to issue notes, bills, or any other form of undertaking to pay money intended for circulation under £5 cy., without a license to act as a banker. Any one having a license and refusing to redeem notes on demand shall lose his license. The same applies to the agents of authorized banks, not being chartered in the Province, who shall refuse to redeem their notes in specie, except when suspension is permitted by law, when they may redeem with the notes of the chartered banks of the Province. No notes of any kind were to be issued under five shillings, and licenses were to be granted for not longer than one year. Those obtaining licenses to issue bills, notes or bonds, were required to furnish the Government with a statement of their affairs showing their effects and liabilities. It will be observed that this ordinance did not prohibit the practice of issuing notes by merchants and private bankers, but simply regulated it, with a view to weeding out the spurious and insolvent issues such as were being made.

We have already seen that there was a growing element in the Canadian Provinces in favor of some direct Government issue of paper currency. The views of this element had found

expression in efforts, on the one hand, to establish a Provincial bank, and, on the other, to secure the direct issue of Provincial notes, the idea at present embodied in our Dominion notes. Hitherto these efforts had been without success. However, the financial embarrassment of the country, due to the crisis of 1837-39, revived the project in a very urgent form. The fourth report of the Committee on Finance, which was presented to the Assembly of Upper Canada on February 22nd, 1838, refers to the embarrassed condition of the revenue of the Province, and at the same time the necessity for continuing the public works already undertaken, for re-establishing the circulating medium, and restoring the trade and commerce of the country. To accomplish these very pressing objects, it is recommended that an act should be passed authorizing the Receiver-General to issue small bills, payable on the first of June, 1839, and which would be received on Government account. These would supply the country with a medium of exchange based on the credit of the Province. It is pointed out that they would be at least as valuable as the notes of the Commercial Bank, which has suspended specie payment and yet whose notes are accepted in all business transactions as nearly equal in value to specie. The credit of the Province should be better than that of any bank, especially as its paper would be received in payment of public dues. The Government would have time to effect a loan before the notes were due, and in the meantime the prosperity and progress of the country would be restored. The report was signed by W. H. Merritt, as chairman.

These proposals, with the expectations founded upon them, afford one more striking illustration of how completely at sea even the more intelligent men of the country were on the subject of the functions and limitations of paper money. No real distinction is made between capital and money, or between metallic and paper money. All the evils of the country are attributed to the scarcity of money, and the supply of a paper money with a backing of reliable credit to get it into circulation, is considered to be a thoroughly reasonable and effective means of restoring prosperity. The conception was as happy as that of putting in an extra pump to prevent a well from going dry.

Together with this report Mr. Merritt introduced a bill "To

authorize the issuing of bills on the credit of this Province." The bill passed the Assembly, but was rejected by the Council. During the following session, in the spring of 1839, another bill "To authorize the issue of bills of credit," was passed by both Houses, but was reserved by Lieutenant-Governor Arthur in accordance with his general instructions from the Home Government.

In the course of the agitation for the issue of a Provincial currency it had been discovered that an Imperial Act of 4th Geo. III, with reference to the American Colonies before the Revolution, still blocked the way of any legal action on the part of the Provincial Legislatures. This act prohibited any paper bills of credit which might be issued in any of His Majesty's colonies or plantations in America, from being made a legal tender.

In February, 1838, when the first bill on the subject was passed by the Assembly of Upper Canada, that House, through its Speaker, Allan McNab, sent a petition to the Queen, stating that this act was greatly to the detriment of the prosperity of the Province and praying that it be repealed, at least as far as it applied to the Province of Upper Canada. The Colonial Secretary acknowledged the receipt of the petition, and promised to return the report of the Lords of the Treasury upon it. In reply it was pointed out to the Assembly that by an act of 12th Geo. III, it was permitted to make Government notes, bills, or debentures receivable for public dues, but not otherwise legal tender.

Knowing that the bill of 1839, authorizing the issue of bills of credit, was likely to be passed, Lieut.-Gov. Arthur had written to the Colonial Secretary, Lord Glenelg, on the 20th of Nov., 1838, asking for special instructions in connection with this matter. In his general instructions, Lieut.-Gov. Head had been required to reserve any bills dealing with currency or banking. His successor, however, wished to know whether he would be allowed to give provisional assent to a bill having for its object an issue by the Receiver General, on the credit of the Province, of bills or notes payable at Toronto twelve months after date, to the extent of £100,000, to be made chargeable on the prospective revenue of the Province. For his own part he thinks the Province may be driven to something of this nature. He cites the Army Bills as a precedent, which of course they were not, since they were direct commands upon British capital and were used

as such. Governor Arthur admits that the ordinary Government debentures could not be disposed of in the Province because there was no capital to take them up, and they could not be sold in London because the credit of the Province was gone. Under ordinary circumstances he says he would be opposed to the issue of inconvertible paper money, but the circumstances of the country are peculiar. There is a terrible stagnation in business, and property of all kinds is unsalable, while the inflow of British immigration and capital has been greatly checked. Now the only circumstances under which a Government can safely issue a paper currency is when the expanding prosperity of a country stands in need of an enlarged medium of exchange. Under such conditions the Government may forestall the banks and supply a share of the paper currency, as in the case of our Dominion notes. But when business is stagnant and the Government in need of capital, to issue a paper currency is simply to exaggerate the evils which already exist. As already pointed out, the policy of Governor Head and the directors of the Bank of Upper Canada in preventing the suspension of specie payments by the banks, had added to the natural burdens of the commercial crisis an abnormal shrinkage in the currency of the country. But under the conditions then existing the crisis had done its work, the banks had suspended specie payment when the crisis was over, and there was now plenty of money for any business there was to do. It was capital, not money, that both the business men and the Government wanted.

However, before the Lieut.-Governor got a reply to his enquiries, Lord John Russell had become Colonial Secretary, and the Right Hon. C. P. Thomson, afterwards Lord Sydenham, was Gov.-General. In his instructions to the new Governor, Lord Russell refers to the reserved bill authorizing Treasury notes or bills of credit of one pound each, to the extent of £250,000. The measure, he says, cannot be confirmed, because the issue of such a large amount of inconvertible paper currency would do much more harm than good in its injurious effect on the currency, monetary transactions and private property of the Province. If the credit of the Province can be made to sustain the Treasury in any ordinary way he may authorize it, but it would be disastrous to have the future prosperity of the country threatened and

an early return to sound financial operations precluded by expedients resorted to in tiding over temporary difficulties. Lord Russell sent similar instructions to Lieut.-Governor Arthur. In default of this method of employing the Provincial credit the Government attempted to dispose of its regular debentures as best it could, though the results were far from encouraging.

As was but natural, the popular American conviction of the period that paper money was both wealth and capital wherever the credit upon which it was issued was good, was held to be applicable to other spheres than that of government. One of the important enterprises of the day was the Welland canal, a most useful and even indispensable undertaking with reference to the future development of the country. Like most other undertakings of the time, its promoters had their own difficulties in financing the enterprise. Mr. Merritt, the leading advocate of a Provincial paper currency, was the most active promoter of the canal. Hence, when other sources of capital failed, and the limited Government aid was exhausted before more had been secured, Mr. Merritt and his associates fell back upon an issue of paper money, based upon the actual accomplishment and the future prospects of the canal. This paper was issued, apparently about the end of 1835, in the shape of small debentures, a common device in some of the American States. They were to be paid at the end of a year, with interest. But to issue is easy, to redeem hard, and the times not improving the paper was not redeemed. There was some talk of redeeming it in 1837 by the issue of Government debentures in aid of the canal; but this was only partially, if at all successful, there being no eager market for Upper Canada debentures at that time. However, the subsequent history of Welland canal money belongs to a later period.

Still another direction in which the prevalent monetary heresy of the time was leading the unsophisticated, and for which there was also considerable American precedent, was that of the municipal issue of paper money.

The corporation of the recently chartered city of Toronto was, even in those days, inclined to be somewhat extravagant, was at any rate always outstripping its revenue. The banks being partly unwilling and partly unable to afford further assistance, the corporation decided to adopt the panacea of the age

and issue money of its own. About the end of May, 1837, a measure was brought before the city council to authorize the corporation to issue \$6,000 in bills of credit, in the shape of one dollar notes, payable with interest within six months. These notes were to be receivable at the city treasury for taxes, fines, or any other debt due to the city. The issue was represented as merely an anticipation of the revenue of the year, and was intended to give employment to many who were then idle. Before the middle of June the Toronto city dollars had appeared. They were made payable to Alderman Denison, and were signed by Mayor Gurnett and Aldermen McCord and Washburn.

However, when the six months for which they were issued had expired, the city council had come to the conclusion that this was too easy and effective a manner of escaping financial embarrassment to be lightly resigned. Excusing themselves on the ground of a purely philanthropic desire to add to the welfare of the country at large, by furnishing it with a much needed supply of sound money, they decided to continue and enlarge their issues in a more permanent form. An extra issue was authorized to the extent of \$16,000, in one and two dollar notes. They sent to New York to procure regularly engraved plates. These notes continued to circulate for a number of years.

When Kingston was incorporated, it too, followed the example of Toronto and issued civic notes in 1842.

Though McKenzie was a strong opponent of most of the issues of paper money, yet when he came to set up a government of his own on Navy Island he discovered that even provisional governments are not always sufficiently provided with specie to meet the pressing needs of the hour. Hence even he resorted to the issue of paper money, which with modest assurance was made payable four months after date at the City Hall in Toronto.

We have now pretty fully covered the very varied, but, in the end, instructive and sobering experiences of the Canadian Provinces with banking and paper money during the crowded period which preceded the union of the Provinces. It only remains to deal with the vicissitudes of the metallic currency and exchange from 1828 to the Union, and we shall then be prepared to take up the monetary history of United Canada.